

## MIDF Strategy | 19 March 2018

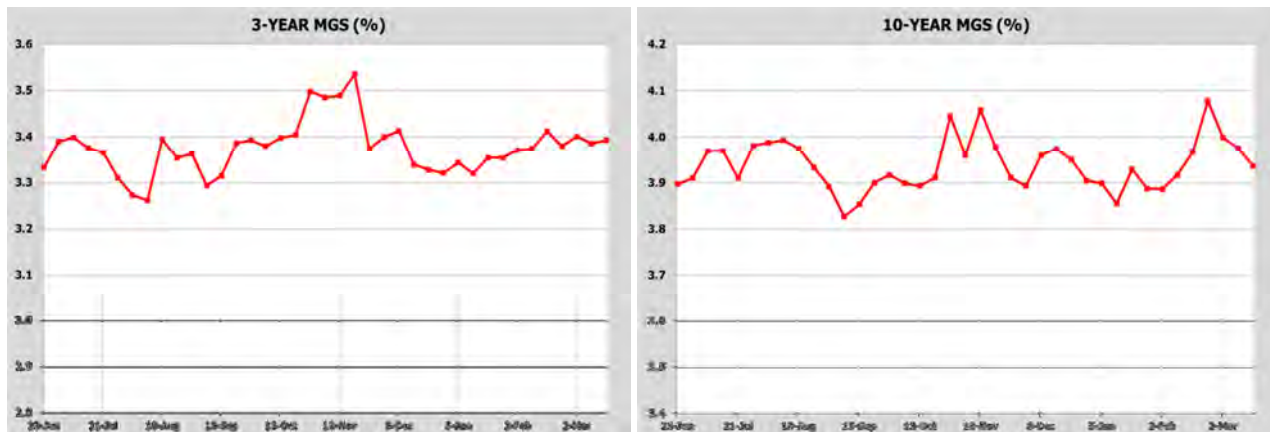
### Week Ended 16 March

- The 3-year UST yield climbed while the 10-year rate fell during the review week, pushing the curve flatter. Industrial Production grew 4.4%yoy in February (fastest since March 2011) and University of Michigan's consumer sentiment jumped to 102 points in March (a 14-year high), further supporting the case for additional hikes in the short-term policy rate.
- On the other hand, retail sales unexpectedly fell in February for the third month in a row (longest since early 2015) which indicates consumer spending, the largest part of the economy, is slowing. Hence it reaffirms the limited possibility for any sustained acceleration in consumer inflation.
- Likewise, the local MGS curve ended the review week flatter with the yields of benchmark 3-year and 10-year respectively climbed +0.7bp and fell -4.0bps to close the week at 3.39% and 3.94%.
- Total trading value for Government Bonds (MGS/MII) declined to RM17.62b in the review week compared to RM19.68b in the previous week.
- On the other hand, the total trading value for Corporate Bonds (Conventional & Sukuk) increased to RM3.95b in the review week compared to RM2.74b in earlier week.

19 March 2018 | Strategy

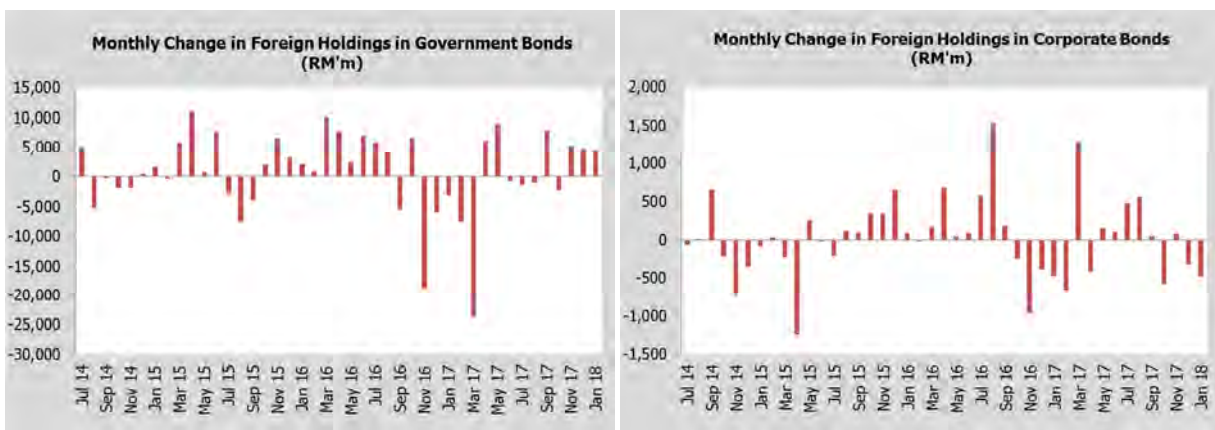
## Weekly Money Review

### A. FIXED INCOME



Source: Bloomberg

- The 3-year UST yield climbed while the 10-year rate fell during the review week, pushing the curve flatter. Industrial Production grew 4.4%yoy in February (fastest since March 2011) and University of Michigan's consumer sentiment jumped to 102 points in March (a 14-year high), further supporting the case for additional hikes in the short-term policy rate. On the other hand, retail sales unexpectedly fell in February for the third month in a row (longest since early 2015) which indicates consumer spending, the largest part of the economy, is slowing. Hence it reaffirms the limited possibility for any sustained acceleration in consumer inflation.
- Likewise, the local MGS curve ended the review week flatter with the yields of benchmark 3-year and 10-year respectively climbed +0.7bp and fell -4.0bps to close the week at 3.39% and 3.94%.
- Total trading value for Government Bonds (MGS/MII) declined to RM17.62b in the review week compared to RM19.68b in the previous week (based on Bloomberg data). Furthermore, the total trading value of 10 most actively traded issues was lower at 57% of the overall Government Bonds trades in the week under review (vis-à-vis ~58% in the week before). Nonetheless, 8 out of the 10 most actively traded bonds saw lower yields hence higher prices during the review week.
- The top 3 actively traded Government Bonds were represented by issues with short to medium residual tenors. The top 3 most actively traded were MGS 3.899% 11/16/27 at RM2.38b, MII 3.948% 04/14/22 at RM1.52b, and MGS 3.882% 03/10/22 at RM1.11b.
- On the other hand, the total trading value for Corporate Bonds (Conventional & Sukuk) increased to RM3.95b in the review week compared to RM2.74b in earlier week (based on Bloomberg data). The total trading value of 10 most actively traded issues was higher at 34% of the overall Corporate Bonds trades (from ~32% in the week before).
- The top 3 actively traded Corporate Bonds were dominated by GLC-related issues with both short and long residual tenors. The biggest trading values were seen in DanaInfra Nasional 5.1% 05/25/37 at RM240m, Cagamas Berhad 4.1% 03/16/20 at RM225m, and Cagamas Berhad 4.1% 11/18/20 at RM140m.
- Total foreign holdings of Government Bonds stood at RM187.5b as at end-January 2018. It was an increase of RM4.6b from the December 2017 figure of RM182.9b.



Source: BNM

- Total foreign holdings of Corporate Bonds declined by RM470.8m in the month of January 2018 to RM15.6b.

## B. FOREIGN EXCHANGE

- DXY Index further improved by 0.2%wow. The greenback currency appreciated amid of highly possible first rate hike during this week's FOMC meeting. Apart from that, the University of Michigan's consumer sentiment for the US jumped to 14-year high at 102 points in Mac-18, reflecting continuous optimistic domestic demand in the economy. In Feb-18, IP growth recorded at 4.4%yoy, fastest since Mac-11 while retail sales expanded by 4%yoy. With these positive developments, we anticipate the upcoming FOMC will see the first rate hike and maintain our call of three rate hikes only this year.
- EURUSD disappointed with inflation data. Headline inflation in Euro Area declined to 15-month low at 1.1%yoy in Feb-18. It is below market expectations of 1.2%yoy and below the previous month's record of 1.3%yoy. In spite of this, core inflation stays stable at 1%yoy. Moving forward, we view the inflation trends to improve as economic environment remains on upbeat momentum and hence provide additional for ECB to continue with its normalization of monetary policy.

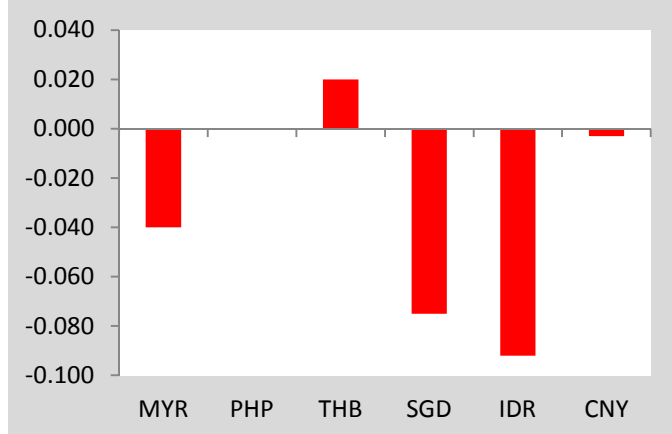
### Currencies Changes (Week Ended 16/03) and Quarterly Forecasts

|           | Close (16/03) | Prev Close (09/03) | Change | % Change | 1Q18F  | 2Q18F  | 3Q18F | 4Q18F  |
|-----------|---------------|--------------------|--------|----------|--------|--------|-------|--------|
| DXY Index | 90.233        | 90.093             | 0.140  | 0.2      | 93.54  | 90.69  | 91.91 | 95.98  |
| EURUSD    | 1.229         | 1.231              | -0.002 | -0.1     | 1.19   | 1.22   | 1.20  | 1.16   |
| GBPUSD    | 1.394         | 1.385              | 0.009  | 0.7      | 1.25   | 1.25   | 1.15  | 1.09   |
| USDJPY    | 106.010       | 106.820            | -0.810 | 0.8      | 107.50 | 100.29 | 95.10 | 102.27 |
| USDMYR    | 3.907         | 3.912              | -0.004 | 0.1      | 4.05   | 3.90   | 4.00  | 3.95   |
| GBPMYR    | 5.465         | 5.406              | 0.059  | -1.1     | 5.12   | 4.89   | 4.53  | 4.58   |
| JPYMYR    | 3.686         | 3.662              | 0.024  | -0.7     | 3.79   | 3.89   | 4.14  | 4.13   |

Quarterly figures are forecast by MIDFR  
Source: Bloomberg, MIDFR

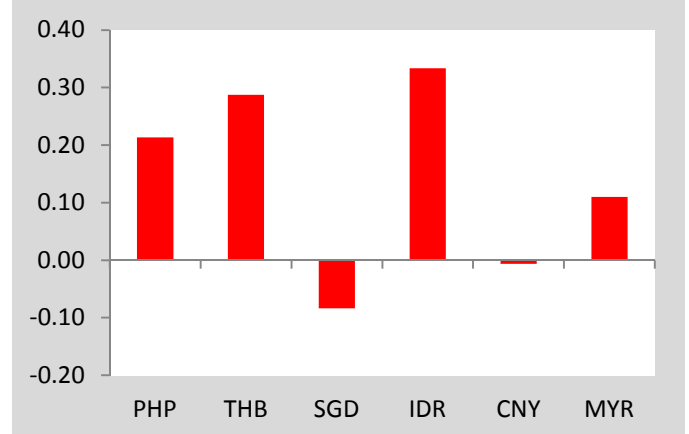
- Ringgit – Stays below 4.00 for 10-Consecutive weeks. MYR remains intact underpin by continuous strong macroeconomic performances. IPI growth registered at 3%yoy in Jan-18 while retail sales increased by 9.9%yoy during the same month. On a flip side, unemployment rate returned to 3.4% in the first month of 2018. We maintain our call MYR to average at 4.00 and register year-end target at 3.95.

**Yield Change in 10Y Government Bonds (bps)**



Source: BLOOMBERG; MIDFR

**Weekly Currencies Change vs Dollar (%)**



Source: BLOOMBERG; MIDFR

**Central Bank Policy Rate by Selected Economies (%)**

|                | Jun-17 | Jul-17 | Aug-17 | Sep-17 | Oct-17 | Nov-17 | Dec-17 | Jan-18 | Feb-18 |
|----------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Malaysia       | 3.00   | 3.00   | 3.00   | 3.00   | 3.00   | 3.00   | 3.00   | 3.25   | 3.25   |
| Indonesia      | 4.75   | 4.75   | 4.50   | 4.25   | 4.25   | 4.25   | 4.25   | 4.25   | 4.25   |
| Singapore      | Neut.  | Neut.  | Neut.  | Neut.  | Neut.  | Neut.  | Neut.  | Neut.  | Neut.  |
| Philippines    | 3.00   | 3.00   | 3.00   | 3.00   | 3.00   | 3.00   | 3.00   | 3.00   | 3.00   |
| Thailand       | 1.50   | 1.50   | 1.50   | 1.50   | 1.50   | 1.50   | 1.50   | 1.50   | 1.50   |
| Vietnam        | 6.50   | 6.25   | 6.25   | 6.25   | 6.25   | 6.25   | 6.25   | 6.25   | 6.25   |
| Korea          | 1.25   | 1.25   | 1.25   | 1.25   | 1.25   | 1.50   | 1.50   | 1.50   | 1.50   |
| China          | 4.35   | 4.35   | 4.35   | 4.35   | 4.35   | 4.35   | 4.35   | 4.35   | 4.35   |
| Japan          | -0.10  | -0.10  | -0.10  | -0.10  | -0.10  | -0.10  | -0.10  | -0.10  | -0.10  |
| United Kingdom | 0.25   | 0.25   | 0.25   | 0.25   | 0.25   | 0.50   | 0.50   | 0.50   | 0.50   |
| EU             | 0.00   | 0.00   | 0.00   | 0.00   | 0.00   | 0.00   | 0.00   | 0.00   | 0.00   |
| United States  | 1.25   | 1.25   | 1.25   | 1.25   | 1.25   | 1.25   | 1.50   | 1.50   | 1.50   |

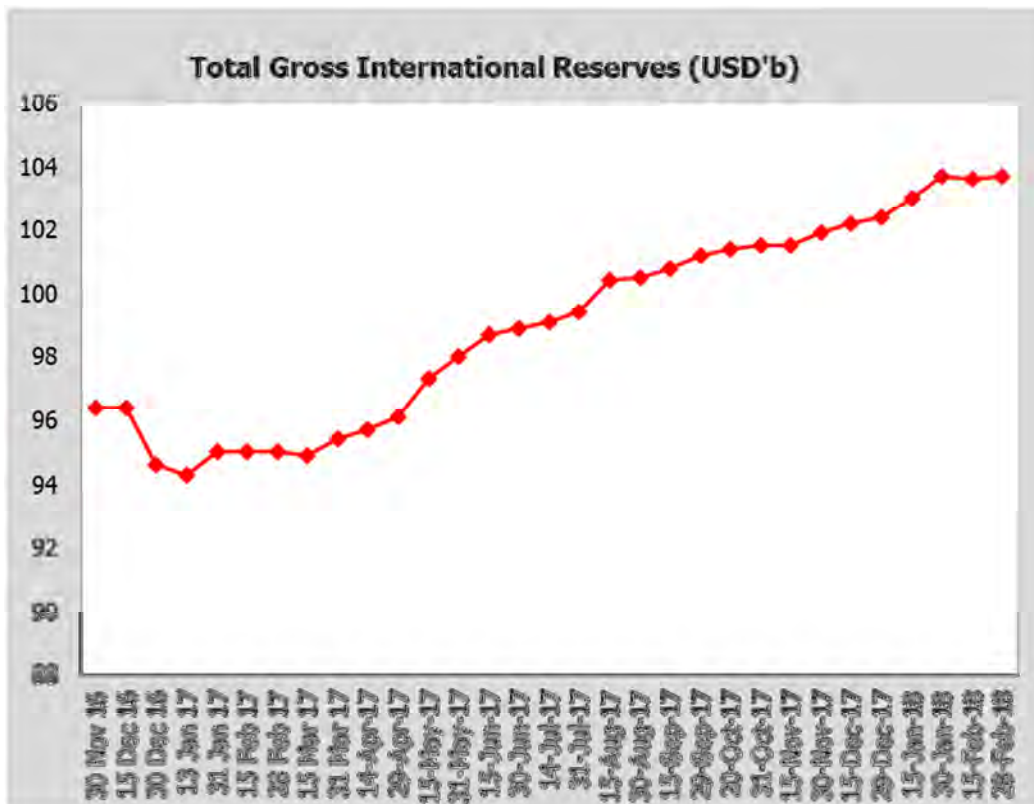
Source: CEIC, MIDFR

- Federal Reserve is having its 2nd FOMC meeting this week. Jerome Powell will preside his first official policy meeting and market is overwhelmingly predicted that he will deliver Fed's 1st rate hike at the conclusion of its two day policy meeting on Wednesday.
- Over the past months, Fed is preparing to raise the key lending rate as economic conditions converge to put upward pressure on prices, including massive new tax cuts, a weaker dollar and even the threat of a trade war.
- Worries the Fed could raise its benchmark interest rate at a faster pace, perhaps as many as four times in 2018, spooked markets last month, briefly sparking a global stocks selloff in early February
- In general, central banks around the world are more hawkish about the trajectory of the global economy as well as their respective domestic economy.
- The upward bias inflation expectation will influence both the debt and equity markets globally. This will sway the investor's portfolio allocation as well as fund flow direction.
- Core inflation is expected to gain traction in developed economy driven by improved labor market and upbeat domestic economic performance.
- Domestically, inflationary pressure is expected to moderate amid stable commodities prices and high base effect.


- Stronger Ringgit performance as well as availability of spare capacity in the labor market will help demand pressure in the near term.
- Our base case scenario for OPR remains unchanged (single rate hike) for the full year. End the year at 3.25% barring any pleasant upward surprises from economic growth.

## C. BNM FOREIGN RESERVES

- As at 28 February 2018, Bank Negara Malaysia’s international reserves declined to USD103.7b.



Source: BNM

- The amount of reserves is sufficient to finance 7.2 months of retained imports and is 1.1 times the short-term external debt. 

## APPENDIX

### WEEKLY INTEREST RATE MONITOR

| Tenor       | 9-Mar<br>Fri | 12-Mar<br>Mon | 13-Mar<br>Tue | 14-Mar<br>Wed | 15-Mar<br>Thu | 16-Mar<br>Fri | Change<br>(WoW bp) |
|-------------|--------------|---------------|---------------|---------------|---------------|---------------|--------------------|
| MGS         |              |               |               |               |               |               |                    |
| 3-Y         | 3.386        | 3.386         | 3.393         | 3.39          | 3.389         | 3.393         | 0.7                |
| 5-Y         | 3.584        | 3.589         | 3.57          | 3.57          | 3.547         | 3.536         | -4.8               |
| 7-Y         | 3.883        | 3.884         | 3.882         | 3.875         | 3.867         | 3.884         | 0.1                |
| 10-Y        | 3.976        | 3.97          | 3.961         | 3.936         | 3.93          | 3.936         | -4.0               |
| 20-Y        | 4.545        | 4.545         | 4.545         | 4.541         | 4.541         | 4.545         | 0.0                |
| RINGGIT IRS |              |               |               |               |               |               |                    |
| 1-Y         | 3.745        | 3.75          | 3.75          | 3.75          | 3.745         | 3.745         | 0.0                |
| 3-Y         | 3.805        | 3.81          | 3.805         | 3.815         | 3.795         | 3.8           | -0.5               |
| 5-Y         | 3.89         | 3.89          | 3.885         | 3.87          | 3.855         | 3.865         | -2.5               |
| 7-Y         | 4.01         | 4.02          | 4.01          | 3.99          | 3.965         | 3.975         | -3.5               |
| 10-Y        | 4.14         | 4.14          | 4.13          | 4.12          | 4.1           | 4.1           | -4.0               |
| KLIBOR      |              |               |               |               |               |               |                    |
| 1-M         | 3.42         | 3.42          | 3.42          | 3.42          | 3.42          | 3.42          | 0.0                |
| 2-M         | 3.66         | 3.66          | 3.66          | 3.66          | 3.66          | 3.66          | 0.0                |
| 3-M         | 3.69         | 3.69          | 3.69          | 3.69          | 3.69          | 3.69          | 0.0                |
| UST         |              |               |               |               |               |               |                    |
| 3-Y         | 2.4303       | 2.4193        | 2.413         | 2.4076        | 2.4294        | 2.4431        | 1.28               |
| 5-Y         | 2.6502       | 2.635         | 2.6181        | 2.6097        | 2.6249        | 2.6418        | -0.84              |
| 7-Y         | 2.8095       | 2.7921        | 2.7698        | 2.7499        | 2.7623        | 2.7772        | -3.23              |
| 10-Y        | 2.8938       | 2.8681        | 2.8426        | 2.8170        | 2.8280        | 2.8445        | -4.93              |
| 30-Y        | 3.1580       | 3.1292        | 3.0981        | 3.0568        | 3.0584        | 3.0770        | -8.10              |
| USD LIBOR   |              |               |               |               |               |               |                    |
| 1-M         | 1.75032      | 1.76495       | 1.7766        | 1.78638       | 1.78638       | 1.78638       | 3.606              |
| 2-M         | 1.87145      | 1.88038       | 1.89038       | 1.90075       | 1.90075       | 1.90075       | 2.930              |
| 3-M         | 2.08875      | 2.10688       | 2.1245        | 2.145         | 2.145         | 2.145         | 5.625              |

Source: Bloomberg

## 10 MOST ACTIVELY TRADED GOVERNMENT BONDS

| Name                     | Coupon | Maturity | 9-Mar Yield | 16-Mar Yield | Change (WoW bp) | Weekly Volume (RM bn) |
|--------------------------|--------|----------|-------------|--------------|-----------------|-----------------------|
| MALAYSIA GOVERNMENT      | 3.899  | 11/16/27 | 3.976       | 3.936        | -4.0            | 2,385.0               |
| MALAYSIA INVESTMNT ISSUE | 3.948  | 04/14/22 | 3.830       | 3.824        | -0.6            | 1,516.0               |
| MALAYSIA GOVERNMENT      | 3.882  | 03/10/22 | 3.584       | 3.536        | -4.8            | 1,114.4               |
| MALAYSIA GOVERNMENT      | 3.882  | 03/14/25 | #N/A N/A    | 3.825        | #VALUE!         | 1,070.0               |
| MALAYSIA INVESTMNT ISSUE | 4.128  | 08/15/25 | 4.030       | 4.001        | -2.9            | 907.5                 |
| MALAYSIA GOVERNMENT      | 3.844  | 04/15/33 | 4.414       | 4.411        | -0.3            | 773.0                 |
| MALAYSIA GOVERNMENT      | 3.659  | 10/15/20 | 3.374       | 3.360        | -1.4            | 643.0                 |
| MALAYSIA GOVERNMENT      | 3.654  | 10/31/19 | 3.259       | 3.267        | 0.8             | 609.7                 |
| MALAYSIA INVESTMNT ISSUE | 4.258  | 07/26/27 | 4.165       | 4.160        | -0.5            | 512.9                 |
| MALAYSIA GOVERNMENT      | 4.378  | 11/29/19 | 3.328       | 3.286        | -4.2            | 494.7                 |
| TOTAL VOLUME (TOP 10)    |        |          |             |              |                 | 10,026.2              |
| TOTAL VOLUME (Overall)   |        |          |             |              |                 | 17,621.6              |

Source: Bloomberg

## 10 MOST ACTIVELY TRADED CORPORATE BONDS

| Name                     | Coupon | Maturity | 9-Mar Yield | 16-Mar Yield | Change (WoW bp) | Weekly Volume (RM bn) |
|--------------------------|--------|----------|-------------|--------------|-----------------|-----------------------|
| DANAINFRA NASIONAL       | 5.1    | 05/25/37 | #N/A N/A    | 5.012        | #VALUE!         | 240.0                 |
| CAGAMAS BERHAD           | 4.1    | 03/16/20 | #N/A N/A    | 4.091        | #VALUE!         | 225.0                 |
| CAGAMAS BERHAD           | 4.1    | 11/18/20 | 4.117       | 4.107        | -1.0            | 140.0                 |
| TELEKOM MALAYSIA BERHAD  | 4.2    | 09/13/21 | #N/A N/A    | 4.191        | #VALUE!         | 130.0                 |
| DANAINFRA NASIONAL       | 4.58   | 10/31/28 | #N/A N/A    | 4.607        | #VALUE!         | 120.0                 |
| DANAINFRA NASIONAL       | 4.89   | 05/25/32 | 4.866       | 4.827        | -3.9            | 105.0                 |
| YTL POWER INTERNATIONAL  | 5.05   | 05/03/27 | 4.702       | 4.893        | 19.1            | 100.8                 |
| PERBADANAN TABUNG PENDID | 4.86   | 03/12/32 | 4.846       | 4.848        | 0.2             | 100.0                 |
| PERBADANAN TABUNG PENDID | 4.93   | 08/17/32 | 4.846       | 4.852        | 0.6             | 100.0                 |
| KHAZANAH NASIONAL BHD    | ZERO   | 03/08/21 | 4.070       | 4.070        | 0.0             | 100.0                 |
| TOTAL VOLUME (TOP 10)    |        |          |             |              |                 | 1,360.8               |
| TOTAL VOLUME (Overall)   |        |          |             |              |                 | 3,953.3               |

Source: Bloomberg

MIDF RESEARCH is part of MIDF Amanah Investment Bank Berhad (23878 - X).

(Bank Pelaburan)

(A Participating Organisation of Bursa Malaysia Securities Berhad)

## DISCLOSURES AND DISCLAIMER

This report has been prepared by MIDF AMANAH INVESTMENT BANK BERHAD (23878-X). It is for distribution only under such circumstances as may be permitted by applicable law.

Readers should be fully aware that this report is for information purposes only. The opinions contained in this report are based on information obtained or derived from sources that we believe are reliable. MIDF AMANAH INVESTMENT BANK BERHAD makes no representation or warranty, expressed or implied, as to the accuracy, completeness or reliability of the information contained therein and it should not be relied upon as such.

This report is not, and should not be construed as, an offer to buy or sell any securities or other financial instruments. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. All opinions and estimates are subject to change without notice. The research analysts will initiate, update and cease coverage solely at the discretion of MIDF AMANAH INVESTMENT BANK BERHAD.

The directors, employees and representatives of MIDF AMANAH INVESTMENT BANK BERHAD may have interest in any of the securities mentioned and may benefit from the information herein. Members of the MIDF Group and their affiliates may provide services to any company and affiliates of such companies whose securities are mentioned herein. This document may not be reproduced, distributed or published in any form or for any purpose.

### MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

#### STOCK RECOMMENDATIONS

|              |   |
|--------------|---|
| BUY          | Total return is expected to be >10% over the next 12 months.  |
| TRADING BUY  | Stock price is expected to <i>rise</i> by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.   |
| NEUTRAL      | Total return is expected to be between -10% and +10% over the next 12 months.   |
| SELL         | Total return is expected to be <-10% over the next 12 months.   |
| TRADING SELL | Stock price is expected to <i>fall</i> by >-10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow. |

#### SECTOR RECOMMENDATIONS

|          |  |
|----------|--|
| POSITIVE | The sector is expected to outperform the overall market over the next 12 months.   |
| NEUTRAL  | The sector is to perform in line with the overall market over the next 12 months.  |
| NEGATIVE | The sector is expected to underperform the overall market over the next 12 months. |